

Message Text

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ACTION EB-11

INFO OCT-01 AF-10 ARA-16 EUR-25 EA-11 NEA-14 ISO-00 IO-14

FEA-02 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-03 COME-00

DODE-00 FPC-01 H-03 INR-11 INT-08 L-03 NSAE-00 NSC-07

OMB-01 PM-07 RSC-01 SAM-01 SCI-06 SP-03 SS-20 STR-08

TRSE-00 FRB-03 PA-04 PRS-01 USIA-15 DRC-01 /244 W

----- 008300

R 240650Z SEP 74

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 2078

INFO AMEMBASSY ALGIERS

AMEMBASSY BEIRUT

AMEMBASSY BRUSSELS

AMEMBASSY CARACAS

DJAKARTA 0010

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LONDON

USMISSION OECD PARIS

AMEMBASSY QUITO

AMEMBASSY ROME

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY TRIPOLI

AMEMBASSY VIENNA

AMEMBASSY LAGOS

C O N F I D E N T I A L ABU DHABI 1302

E.O. 11652: GDS

TAGS: ENRG, TC

SUBJECT: ABU DHABI REDUCES OIL PRODUCTION

1. OIL COMPANY SOURCE TOLD US TODAY THAT BOTH MAJOR PRODUCERS
IN ABU DHABI, ADPC AND ADMA, HAVE BEEN INSTRUCTED BY MINISTRY

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OF PETROLEUM AFFAIRS TO REDUCE PRODUCTION SHARPLY FOR MONTH OF

SEPTEMBER. PRODUCTION LEVEL WHICH WAS IMPOSED LAST SPRING AND WHICH HAS PREVAILED SINCE, HAS BEEN 1.635 MILLION BBL/DAY, OF WHICH ADPC HAD 1.1 MILLION BBL/DAY AND ADMA 535,000 BBL/DAY. ADPC HAS NOW BEEN REDUCED TO 900,000 BBL/DAY AND ADMA TO 420,000 BBL/DAY, REDUCTION IN TOTAL PRODUCTION OF ABOUT 20 PERCENT. INSTRUCTIONS TO COMPANIES REFER ONLY TO MONTH OF SEPTEMBER BUT COMPANIES HAVE BEEN TIPPED OFF THAT SAME LEVEL IS LIKELY TO OBTAIN AT LEAST FOR OCTOBER.

2. COMPANIES APPARENTLY HAD NO HINTS THAT PRODUCTION CUTS WERE IN OFFING AND NO RATIONALE HAS BEEN GIVEN BY MINISTRY OF PETROLEUM. THERE HAS PREVIOUSLY BEEN SOME TALK OF CUTTING BACK ADPC ON CONSERVATION GROUNDS BUT COMPANY OFFICIALS SPECULATE THAT MAIN MOTIVATION STEMS FROM ADNOC'S INABILITY TO SELL ANYTHING MORE THAN SMALL QUANTITY OF OIL AT 93 PERCENT OF POSTED PRICE. COMPANY OFFICIALS BELIEVE THAT PRODUCTION CUTS HAVE BEEN DICTATED BY PROSPECT OF MUCH LARGER FUTURE QUANTITIES OF OIL WHICH ADNOC WILL HAVE TO MARKET UNDER 60-40 PARTICIPATION AGREEMENT, COUPLED WITH APPARENT ADG UNWILLINGNESS TO ALLOW OIL TO BE LIFTED AT PRICES UNDER 93 PERCENT OF POSTED PRICE.

3. PRODUCTION CUTS WILL HAVE EFFECT OF THROWING CURRENT COMPANY-GOVERNMENT NEGOTIATIONS FOR BUY-BACK PRICE FOR THIRD AND FOURTH QUARTERS, AS WELL AS OTHER MATTERS INTO EVEN FURTHER CONFUSION. PREVIOUS COMPANY OFFER TO TAKE BACK 300,000 BBL/DAY FOR THIRD QUARTER OF 1974 AT HIGH PRICE OF 94.8 PERCENT OF POSTED WAS BASED ON ASSUMPTION THAT COMPANY'S EQUITY SHARE WOULD BE AT OLD LEVEL OF PRODUCTION (440,000 BBL PER DAY IN CASE OF ADPC). ADPC ASSUMES (BUT HAS NOT BEEN OFFICIALLY INFORMED BY MINPET) THAT PRODUCTION CUT MEANS THAT THEY WILL BE GETTING ONLY 360,000 BBL PER DAY OF EQUITY OIL FOR SEPTEMBER ONWARDS, FACTOR WHICH WOULD CAUSE ALL TENTATIVE AGREEMENTS REACHED IN LONDON RECENTLY ON PRICE LEVELS TO BE RENEGOTIATED. COMPANIES ALSO UNCERTAIN THUS FAR AS TO HOW ABU DHABI DEPT. OF PETROLEUM WILL CHOOSE TO IMPLEMENT OPEC DECISION TO INCREASE GOVERNMENT'S TAKE BY 3.5 PERCENT. WHEN AMBASSADOR AND DEPASSTSECY SOBER CALLED ON MINPET UNDER SECRETARY ISMAIL FEW DAYS AGO, HE SAID HE WAS AT THAT TIME STUDYING HOW OPEC DECISION SHOULD BE APPLIED, BUT HAD REACHED NO FIRM DECISION AS TO BREAKDOWN BETWEEN ROYALTY AND TAX INCREASE. COMPANIES ARE ASSUMING ROYALTIES WILL BE CONFIDENTIAL

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RAISED TO 16 AND TWO-THIRDS PER CENT WHICH WOULD CAUSE TAXES TO RISE FROM 55 TO 61.3 PERCENT. COMPANY OFFICIALS ARE ASSUMING THAT "3.5 PERCENT INCREASE IN GOVERNMENT'S TAKE" WILL BE CONSTRUED TO BE APPLIED TO TOTAL PRODUCTION, WHICH THEY THINK MEANS THAT INCREASE IN ROYALTY/TAXES ON THEIR ENTITLEMENT OIL WILL BE ON ORDER OF 10 TO 12 PERCENT. IF THIS TURNS OUT TO BE THE CASE, GOVERNMENT TAKE ON EQUITY OIL WOULD INCREASE BY ALMOST ONE DOLLAR, WHICH COMPANY OFFICIALS SAY WOULD NOT POSSIBLY BE ABSORBED BY COMPANIES

AND WOULD HAVE TO BE PASSED ON TO CONSUMERS.

4. PRODUCTION CUTS HAVE ALSO VJRN EVEN FURTHER
UNCERTAINTY OVER CAPITAL INVESTMENT SCHEMES WHICH
BOTH ADPC AND ADMA HAVE LONG HAD ON BOOKS, BUT WHICH
WOULD BE POINTLESS IF PRODCUTION LEVEL IS HELD DOWN.
NEGOTIATIONS BETWEEN ADPC OWNERS AND ABK DHABI
GOVERNMENT ARE EXPECTED TO RESUME NEXT WEEK. AS ONE
OFFICIAL HERE PUTS IT, "PRODUCTION CUTS, IF THEY BECOME
PERMANENT, MAKE IT A WHOLE NEW BALL GAME."

5. COMMENT: BY CUTTING PRODUCTION ABU DHABI
APPEARS TO BE ACTING DECISIVELY TO SUPPORT REPORTED
AGREEMENT REACHED AT OPEC THAT 93 PER CENT OF POSTED
PRICE SHOULD CONSTITUTE FLOOR FOR OIL PRICES. TIMING OF
PRODUCTION CUT MAY ALSO BE RELATED TO FACT THAT NEGOTIATIONS
ARE CURRENTLY UNDERWAY BETWEEN COMPANIES AND ADG, WITH
LATTER SEEKING DRAMATIC WAY OF DEMONSTRATING TO COMPANIES
THAT IT WILL CUT PRODUCTION IF COMPANIES DO NOT AGREE
TO ITS BUY-BACK PRICE.
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